

STAND. COM. REP. NO. 3004

Honolulu, Hawaii

MAR 06 2026

RE: S.B. No. 2662
S.D. 2

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 2662, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO GOVERNMENT ACCOUNTABILITY,"

begs leave to report as follows:

The purpose and intent of this measure is to reduce reliance on external consultants for work that may be performed by qualified government employees.

More specifically, this measure:

- (1) Requires each purchasing agency to provide justification for hiring external consultants;
- (2) Requires each agency to seek approval from the Legislature for consulting contracts exceeding a certain dollar amount;
- (3) Requires each agency to submit annual reports to the Legislature regarding external consultations;
- (4) Requires the Compliance Audit Unit to conduct regular audits of agency consultant contracts to assess cost-effectiveness and compliance; and



- (5) Requires each Chief Procurement Officer to ensure that inherent government functions are not delegated to a contractor.

Your Committee received written comments in opposition to this measure from the Department of Accounting and General Services, Employees' Retirement System, City and County of Honolulu Department of Parks and Recreation, Honolulu Authority for Rapid Transportation, City and County of Honolulu Board of Water Supply, and City and County of Honolulu Department of Transportation Services.

Your Committee received written comments on this measure from the Department of the Attorney General, Department of Education, Office of the Auditor, State Procurement Office, and Office of the Mayor of the City and County of Honolulu.

Your Committee finds that there is a pressing need to reduce reliance on external consultants for the performance of work that qualified government employees can or should perform. Excessive outsourcing of government functions often leads to increased costs, diminished accountability, and a loss of institutional knowledge within public institutions. Accordingly, your Committee believes that this measure will lead to greater transparency and ensure that decisions about the allocation of public funds are clear, justifiable, and aligned with the best interests of the State's taxpayers.

Should a Committee in the House of Representatives hear this measure, your Committee respectfully requests that it consider the concerns expressed by the Department of the Attorney General and Employees' Retirement System in their written comments.

Specifically, the Department of the Attorney General expressed concerns that:

- (1) The requirement for purchasing agencies to seek legislative approval for any consulting contract exceeding a certain amount may delay time-sensitive projects and disrupt government operations when the Legislature is not in session;



- (2) The measure does not exclude the appointment of Special Deputy Attorneys General from its requirements, which may delay the appointment process when specialized legal expertise beyond current staffing is needed;
- (3) The measure does not exclude the retention of expert witnesses from its requirements, and subjecting expert witness retention to public justification, approval, and reporting requirements may impair the State's ability to prosecute and defend matters effectively, risk the disclosure of attorney work product and litigation strategies, and create unworkable delays in prosecutions; and
- (4) The measure does not define the term "inherent government functions," and the absence of a definition may create uncertainty and lead to inconsistent application across state agencies.

The Employees' Retirement System offered its concerns that the reporting and approvals required by the measure may compromise the nimbleness necessary to execute external contracts vital to the operation of the System, specifically by:

- (1) Requiring for legislative approval of contracts above a certain threshold, which would likely constrain the Board of Trustees' ability to fulfill its fiduciary duty to provide expert and necessary consultative resources to responsibly administer the System; and
- (2) Imposing justification and reporting requirements that could impair the Board's ability to use external consultants for specialized roles that currently have a twenty-five percent vacancy rate, in part due to recruitment challenges for these specialized positions.

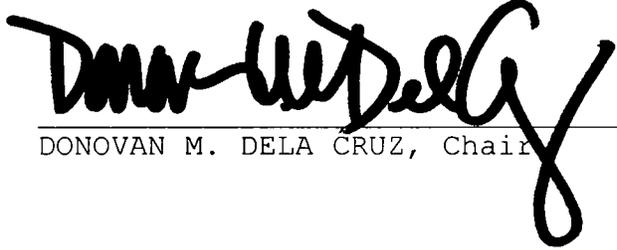
Your Committee has amended this measure by adopting a technical amendment recommended by the State Procurement Office in its written comments to clarify that the Compliance Audit Unit referenced is within the Office of the Auditor.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your



Committee is in accord with the intent and purpose of S.B. No. 2662, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as S.B. No. 2662, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,


DONOVAN M. DELA CRUZ, Chair



